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IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2008

AUDITORS' REPORT

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October 14, 2008

Independent Auditors' Report

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency, Iosco County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements, as listed in the index. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2008, included in the Single Audit Reports issued under separate cover, on our consideration of Iosco Regional Educational Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Iosco Regional Educational Service Agency's basic financial statements. The individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.



IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY

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As management of the Iosco Regional Educational Service Agency, (the Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2008.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the school agency's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Agency's revenues and expenditures by program for the General Fund, Special Education Fund, Vocational Education Fund, and Capital Project Fund.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations.

The overall condition of all funds and governmental activities is positive for the Agency.

The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$2,901,335 (net assets). Of this amount, \$827,071 (unrestricted net assets) may be used to meet the Agency's ongoing obligations to taxpayers, students and creditors.

The Agency's total net assets increased by \$478,976. This represents the degree to which ongoing revenues have surpassed ongoing expenses.

As of the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$1,798,735, an increase of \$403,627 in comparison with the prior year. Of this amount, \$1,766,619 is available for spending at the Agency's discretion (unreserved fund balance). This represents 33% of the total expenditures of these funds.

USING THIS ANNUAL REPORT

This discussion and analysis are intended to serve as an introduction to the Iosco Regional Educational Service Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).



IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

Both of the government-wide financial statements distinguish functions of the Iosco Regional Educational Service Agency that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Agency include instruction, support services, community services, and transfers to other districts. The Agency does not currently have any business-type activities.

The government-wide financial statements can be found in the Statement of Net Assets and Statement of Activities.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the Agency can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The Agency does not currently have any proprietary funds or fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the Agency's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund, Special Education Fund and Vocational Education Fund which are considered to be major funds.

The Agency adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the General Fund, Special Education Fund and Vocational Education Fund to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found in the Balance Sheet – Governmental Funds and the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Agency's major funds. Required supplementary information can be found in the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – for the General Fund, Vocational Education Fund, and the Special Education Fund.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplementary Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT -WIDE FINANCIAL ANALYSIS

The Agency's net assets were \$2,901,335 at June 30, 2008. Of this amount, \$827,071 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Agency's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the Agency's governmental activities.

TABLE 1
NET ASSETS

Governmental
Activities

	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Current Assets	\$ 2,107,484	\$ 1,732,697
Capital Assets, Net	<u>3,263,962</u>	<u>3,369,416</u>
Total Assets	<u>5,371,446</u>	<u>5,102,113</u>
Current Liabilities	383,842	406,058
Noncurrent Liabilities	<u>2,086,269</u>	<u>2,273,696</u>
Total Liabilities	<u>2,470,111</u>	<u>2,679,754</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	1,228,600	1,119,666
Restricted	845,664	620,231
Unrestricted	<u>827,071</u>	<u>682,462</u>
Total Net Assets	<u>\$ 2,901,335</u>	<u>\$ 2,422,359</u>

The \$827,071 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example), we would have \$827,071 left.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

The Agency's net assets were \$2,901,335 at June 30, 2008. Capital assets, net of related debt totaled \$1,228,600. The debt of the Agency will be paid for by property taxes collected as the debt service comes due. Day to day operations will be paid for by property taxes, state aid and federal revenues that will be received throughout the year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Agency's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$827,071 is unrestricted.

TABLE 2
CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Revenue:		
Program Revenue:		
Charges for Services	\$ 930,098	\$ 931,480
Operating Grants and Contributions	3,397,087	3,263,670
Capital Grants and Contributions	6,622	11,420
General Revenue:		
Current Property Taxes	1,282,864	1,216,555
State School Aid – Unrestricted	10,578	10,466
Investment Earnings	44,421	52,891
Unrestricted Contributions	11,362	6,709
Miscellaneous	39,755	45,675
Gain on Sale of Capital Assets	<u>0</u>	<u>4,000</u>
Total Revenue	<u>5,722,787</u>	<u>5,542,866</u>
Functions/Program Expenses:		
Instruction	2,213,657	2,091,300
Support Services	2,407,159	2,430,352
Community Services	257,631	223,438
Transfers to Other Districts	263,765	296,729
Interest on Long-Term Debt	101,599	103,490
Unallocated Depreciation	<u>0</u>	<u>331,520</u>
Total Functions/Program Expenses	<u>5,243,811</u>	<u>5,476,829</u>
Change in Net Assets	478,976	66,037
Net assets - beginning	<u>2,422,359</u>	<u>2,356,322</u>
Net assets - ending	<u>\$ 2,901,335</u>	<u>\$ 2,422,359</u>

Governmental activities increased the Agency's net assets by \$478,976.

As reported in our Statement of Activities, the cost of all of our governmental activities this year was \$5,243,811. However, the amount that our taxpayers ultimately financed for these activities through Agency taxes was only \$1,282,864 because some of the cost was paid by those who benefited from the programs (\$930,098), by other governments and organizations who subsidized certain programs with grants and contributions (\$3,403,709) through unrestricted state aid (\$10,578), and by miscellaneous sources (\$95,538).

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The Agency's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund, Vocational Education Fund and the Special Education Fund.

During the fiscal year ended June 30, 2008, the Agency amended the budgets of these major governmental funds a couple of times, none significantly.

General Fund

The General Fund actual revenue was \$1,122,791. That amount is below the original budget estimates of \$1,160,797 and above the final amended budget of \$1,098,875. The variance between the actual revenues, the original budget, and the final budget was the result of overestimating cuts from government sources.

The actual expenditures of the General Fund were \$874,597, which is below the original budget estimates of \$1,102,638 and the final amended budget of \$992,886. The variance between the actual expenditures, the original budget, and final budget was due to a spending freeze in anticipation of revenue cuts and overestimating fuel and energy costs.

The General Fund had total revenues of \$1,122,791 and total expenditures of \$874,597 with an ending fund balance of \$953,071.

Vocational Education Fund

The Vocational Education Fund actual revenue was \$840,594. That amount is below the original budget estimates of \$939,582 and above the final amended budget of \$838,704. The variance between the actual revenues, the original budget, and the final budget was the result of overestimating tuition revenues from Local Districts and underestimating cuts from government sources.

The actual expenditures of the Vocational Education Fund were \$925,021, which is below the original budget estimates of \$1,076,536 and the final amended budget of \$973,801. The variance between the actual expenditures, the original budget, and final budget was due to a budget freeze in anticipation of revenue cuts and overestimating energy costs.

The Vocational Education Fund had total revenues of \$840,594 and total expenditures of \$925,021 with an ending fund balance of \$14,209.

Special Education Fund

The Special Education Fund actual revenue was \$3,758,124. That amount is above the original budget estimates of \$3,583,744 and final amended budget of \$3,685,415. The variance between the actual revenues, the original budget, and the final budget was the result of overestimating cuts from government sources.

The actual expenditures of the Special Education Fund were \$3,519,542, which is below the original budget estimates of \$3,583,744 and the final amended budget of \$3,697,680. The variance between the actual expenditures, the original budget, and final budget was due to a budget freeze in anticipation of revenue cuts and overestimating fuel and energy costs.

The Special Education Fund had total revenues of \$3,758,124 and total expenditures of \$3,519,542 with an ending fund balance of \$799,339.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

TOTAL REVENUES

The total revenues of the Agency were \$5,722,787. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$4,333,807 or 76% of total revenues of \$5,722,787.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$5,319,160. The governmental funds had a net gain in fund balance of \$403,627. The ending fund balance for all governmental funds was \$1,798,735 which represents 34% of current year expenditures. The ending fund balance percentage for the prior year represented 25% of last year's expenditures. This fund balance will be used to help reduce the amount of financing needed for the first six months of the school year as well as providing a contingency for unexpected expenditures and revenue cuts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2008, the Agency had \$5,147,265 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$1,883,303 in depreciation has been taken over the years. We currently have a net book value of \$3,263,962. Total additions for the year were \$72,969. Current year additions included two school buses totaling \$37,000, \$19,600 for a semi truck, \$6,622 for a motorcycle, and \$9,747 for a rebuilt bus motor.

Long-Term Debt

At June 30, 2008, the Agency had \$1,960,269 in bonds and notes outstanding of which \$220,499 represent general obligation bonds of the Agency.

State statutes limit the amount of general obligation debt that a school district may issue. The current debt limitation for the Agency is significantly greater than the outstanding debt of the Agency.

Additional information on the Agency's long-term debt can be found in Note 6 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan is slowing significantly. The current State of Michigan revenue estimates have declined to the point that 2008-2009 funding is uncertain. These factors were considered in preparing the Agency's budgets for the 2008-2009 fiscal year.

Due to external economic factors the Iosco RESA's economic future, without balanced support from the local school districts, puts vocational education in jeopardy. Therefore, potential solutions for this issue are as follows:

- 1) Pass a vocational education millage.
- 2) Direction of more students to the vocational education programs at the Iosco RESA by the local districts.
- 3) Increase in vocational education tuition.
- 4) Billing of vocational education tuition on a school district per capita enrollment.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Iosco Regional Educational Service Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Ron Stec
Assistant Superintendent
Iosco Regional Educational Service Agency
27 N. Rempert Road
Tawas City, MI 48763
Office Telephone (989) 362-3006

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 1,640,344
Receivables:	
Accounts	44,622
Due from Other Governmental Units	421,723
Prepaid Expenses	795
Noncurrent Assets:	
Capital Assets, Net (Note 4)	<u>3,263,962</u>
Total Assets	<u>5,371,446</u>
 <u>Liabilities</u>	
Accounts Payable	47,515
Due to Other Governmental Units	85,481
Interest Payable	75,093
Payroll Deductions and Withholdings	30,067
Salaries Payable	125,147
Deferred Revenue (Note 7)	20,539
Long-Term Liabilities (Note 6)	
Due within one year	240,129
Due in more than one year	<u>1,846,140</u>
Total Liabilities	<u>2,470,111</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	1,228,600
Restricted For:	
Vocational Education	14,209
Special Education	799,339
Capital Projects	32,116
Unrestricted	<u>827,071</u>
Total Net Assets	<u>\$ 2,901,335</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Change in Net Assets Government Type Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instruction	\$ 2,213,657	\$ 620,250	\$ 2,367,946	\$ 0	\$ 774,539
Support Services	2,407,159	183,038	670,012	0	(1,554,109)
Community Services	257,631	126,810	107,913	6,622	(16,286)
Transfers to Other Districts	263,765	0	251,216	0	(12,549)
Interest on Long-Term Debt	<u>101,599</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(101,599)</u>
Total	<u>\$ 5,243,811</u>	<u>\$ 930,098</u>	<u>\$ 3,397,087</u>	<u>\$ 6,622</u>	<u>(910,004)</u>
General Revenue:					
Property Taxes, Levied for General Purposes					1,282,864
State School Aid - Unrestricted					10,578
Investment Earnings					44,421
Unrestricted Contributions					11,362
Miscellaneous					<u>39,755</u>
Total General Revenue					<u>1,388,980</u>
Change in net assets					478,976
Net assets - beginning					<u>2,422,359</u>
Net assets - ending					<u>\$ 2,901,335</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	<u>General Fund</u>	<u>Vocational Education Fund</u>	<u>Special Education Fund</u>	<u>Other Governmental Funds Durant Capital Project Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and Cash Equivalents (Note 2)	\$ 435,715	\$ 21,901	\$ 1,150,612	\$ 32,116	\$ 1,640,344
Receivables:					
Accounts	44,622	0	0	0	44,622
Due from Other Governmental Units	109,101	23,574	289,048	0	421,723
Due from Other Funds (Note 3)	374,917	24,980	0	0	399,897
Prepaid Expenses	<u>0</u>	<u>0</u>	<u>795</u>	<u>0</u>	<u>795</u>
Total Assets	<u>\$ 964,355</u>	<u>\$ 70,455</u>	<u>\$ 1,440,455</u>	<u>\$ 32,116</u>	<u>\$ 2,507,381</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 11,284	\$ 12,022	\$ 24,209	\$ 0	\$ 47,515
Due to Other Governmental Units	0	0	85,481	0	85,481
Due to Other Funds (Note 3)	0	0	399,897	0	399,897
Payroll Deductions and Withholdings	0	8,319	21,748	0	30,067
Salaries Payable	0	35,905	89,242	0	125,147
Deferred Revenue (Note 7)	<u>0</u>	<u>0</u>	<u>20,539</u>	<u>0</u>	<u>20,539</u>
Total Liabilities	<u>11,284</u>	<u>56,246</u>	<u>641,116</u>	<u>0</u>	<u>708,646</u>
<u>Fund Equity</u>					
Fund Balances:					
Reserved:					
Capital Projects	0	0	0	32,116	32,116
Unreserved and Undesignated, Reported In:					
General Fund	953,071	0	0	0	953,071
Special Revenue Funds	<u>0</u>	<u>14,209</u>	<u>799,339</u>	<u>0</u>	<u>813,548</u>
Total Fund Equity	<u>953,071</u>	<u>14,209</u>	<u>799,339</u>	<u>32,116</u>	<u>1,798,735</u>
Total Liabilities and Fund Equity	<u>\$ 964,355</u>	<u>\$ 70,455</u>	<u>\$ 1,440,455</u>	<u>\$ 32,116</u>	<u>\$ 2,507,381</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2008

Total governmental fund balances	\$	1,798,735
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds. Capital
assets at the year end consist of:

Capital Asset Cost	\$ 5,147,265	
Capital Asset Accumulated Depreciation	<u>(1,883,303)</u>	
		3,263,962

Accrued interest on long-term liabilities		(75,093)
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Long-term liabilities, including bonds payable, are not due and payable
in the current period and, therefore, are not reported as liabilities in
the governmental funds. Long-term liabilities at year end consist of:

Bonds Payable	(220,499)	
Notes Payable	(1,739,770)	
Compensated Absences Payable	<u>(126,000)</u>	
Total long-term liabilities		<u>(2,086,269)</u>

Total net assets - governmental activities	\$	<u><u>2,901,335</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	General Fund	Vocational Education Fund	Special Education Fund	Other Governmental Funds Durant Capital Project Fund	Total Governmental Funds
<u>Revenue</u>					
Local Sources	\$ 576,792	\$ 583,714	\$ 1,503,035	\$ 1,278	\$ 2,664,819
State Sources	526,379	151,915	860,206	0	1,538,500
Federal Sources	19,620	104,965	1,394,883	0	1,519,468
Total revenue	<u>1,122,791</u>	<u>840,594</u>	<u>3,758,124</u>	<u>1,278</u>	<u>5,722,787</u>
<u>Expenditures</u>					
Current:					
Instruction	1,216	521,064	1,608,958	0	2,131,238
Support Services	624,090	190,049	1,474,005	0	2,288,144
Community Services	162,318	0	85,800	0	248,118
Outgoing Transfers to Other Districts	12,549	53,598	197,618	0	263,765
Capital Outlay	27,753	0	46,926	0	74,679
Debt Service:					
Principal Retirement	35,812	104,788	77,641	0	218,241
Interest and Fees on Long-Term Debt	10,859	55,522	28,594	0	94,975
Total expenditures	<u>874,597</u>	<u>925,021</u>	<u>3,519,542</u>	<u>0</u>	<u>5,319,160</u>
Excess of revenue over (under) expenditures	<u>248,194</u>	<u>(84,427)</u>	<u>238,582</u>	<u>1,278</u>	<u>403,627</u>
<u>Other Financing Sources (Uses)</u>					
Operating Transfers In	0	70,000	0	0	70,000
Operating Transfers Out	(70,000)	0	0	0	(70,000)
Total other financing sources (uses)	<u>(70,000)</u>	<u>70,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures and other uses	178,194	(14,427)	238,582	1,278	403,627
Fund balances - beginning of year	<u>774,877</u>	<u>28,636</u>	<u>560,757</u>	<u>30,838</u>	<u>1,395,108</u>
Fund balances - end of year	<u>\$ 953,071</u>	<u>\$ 14,209</u>	<u>\$ 799,339</u>	<u>\$ 32,116</u>	<u>\$ 1,798,735</u>

The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Total net change in fund balances - governmental funds \$ 403,627

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (178,423)	
Capital outlays reported in the governmental funds	<u>72,969</u>	(105,454)

Repayment of the debt principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the statement of net
assets. This is the amount of repayments reported as expenditures in the
governmental funds.

Notes Payable		218,241
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Expenses are reported on the accrual method in the statement of activities,
and recorded as an expenditure when financial resources are used in the
governmental funds. The effect of the treatment of these activities are as
follows:

Interest	(6,624)	
Compensated Absences	<u>(30,814)</u>	<u>(37,438)</u>

Change in net assets of governmental activities		\$ <u><u>478,976</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Iosco Regional Educational Service Agency (Agency) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The Agency is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

Iosco Regional Educational Service Agency provides special education services to students in Iosco County, Michigan and parts of the counties of Alcona, Arenac, and Ogemaw. The Agency operates under an elected Board of Education (five members) represented by members elected by delegates from local agencies in the Iosco Regional Educational Service Agency's service area. The Board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The Agency also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Iosco Regional Educational Service Agency's Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Iosco Regional Educational Service Agency. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The Agency uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Agency functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Agency are grouped into the governmental category.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Agency's major governmental funds:

General Fund - The General Fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund.

Vocational Education Fund - The Vocational Education Fund is used to account for all financial resources allocated for vocational education instruction and related supporting services within the Agency.

Special Education Fund - The Special Education Fund is used to account for all financial resources allocated for special education instruction and related supporting services within the Agency.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

The other governmental fund of the Agency accounts for the acquisition or construction of major capital facilities.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Agency as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Agency that are governmental and those that are considered business-type activities. The Agency does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Agency's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Agency, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Agency.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue and capital project funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the Agency. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The nonmajor fund is in a single column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Agency, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Agency receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Agency on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2008, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Cash and Cash Equivalents (Continued)

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Agency are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Agency does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

K. Compensated Absences

The Agency reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Agency's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Agency or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. Governmental Fund Balance Reserves

The Agency reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. The purpose of the reserve is to provide a cash reserve for major replacements and/or repairs to facilities or equipment, and future debt service.

N. Property Taxes

The Agency levies its property taxes on December 1, and various municipalities collect its property taxes and remit them to the Agency through February. The delinquent real property taxes of the Agency are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the Agency for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the Agency. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2007.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2007 - August, 2008. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

P. State Categorical Revenue

The Agency also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2008.

S. Economic Dependency

The Agency received approximately 27% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the Agency, the Agency is considered to be economically dependent.

T. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Iosco Regional Educational Service Agency follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Agency's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

V. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Agency's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents \$ 1,640,344

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts)	\$ 93,493
Investments in Pooled Funds	1,546,651
Petty Cash and Cash on Hand	<u>200</u>
Total	<u>\$ 1,640,344</u>

As of June 30, 2008, the Agency had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	\$ <u>1,546,651</u>	Daily

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

In accordance with its investment policy, the Agency will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the Agency's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2008, the Agency's investment in the investment pool was rated AAAm by Standard & Poor's.

Concentration of Credit Risk

The Agency will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100% of the available reserve.

Investments in other types of authorized securities may be made with the provision that no more than fifty percent of the total current investment portfolio consists of one type of security.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. As of June 30, 2008, \$83,691 of the Agency's bank balance of \$255,283 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Agency will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District's Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Agency will do business.

Foreign Currency Risk

The Agency is not authorized to invest in investments which have this type of risk.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2008 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 374,917	Special Education Fund	\$ 374,917
Vocational Education Fund	<u>24,980</u>	Special Education Fund	<u>24,980</u>
Total	<u>\$ 399,897</u>	Total	<u>\$ 399,897</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance July 01, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ <u>266,900</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>266,900</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	3,035,677	0	0	3,035,677
Furniture, Fixtures and Equipment	1,131,584	0	0	1,131,584
Vehicles and Buses	<u>640,135</u>	<u>72,969</u>	<u>0</u>	<u>713,104</u>
Subtotal	<u>4,807,396</u>	<u>72,969</u>	<u>0</u>	<u>4,880,365</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(337,956)	(68,006)	0	(405,962)
Furniture, Fixtures and Equipment	(945,960)	(43,950)	0	(989,910)
Vehicles and Buses	<u>(420,964)</u>	<u>(66,467)</u>	<u>0</u>	<u>(487,431)</u>
Subtotal	<u>(1,704,880)</u>	<u>(178,423)</u>	<u>0</u>	<u>(1,883,303)</u>
Capital Assets Being Depreciated	<u>3,102,516</u>	<u>(105,454)</u>	<u>0</u>	<u>2,997,062</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 3,369,416</u>	<u>\$ (105,454)</u>	<u>\$ 0</u>	<u>\$ 3,263,962</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental Activities

Instruction	\$ 80,961
Support Services	88,039
Community Services	<u>9,423</u>
	<u>\$ 178,423</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 5 - SHORT-TERM DEBT

The Agency has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The Agency did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2008.

NOTE 6 - LONG-TERM LIABILITIES

A. Bonds Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
School Improvement Bonds:				
The bonds dated November 24, 1998 which bear interest from 4.76% to 8% are due serially each May 15 through 2013. Payments are made from the Durant Bond Debt Retirement Fund.	1998	\$ <u>220,499</u>	\$ <u>60,587</u>	\$ <u>281,086</u>

B. Notes Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
Building and Equipment Note:				
B & B General Contracting, Inc. Subsequently assigned to Comerica Securities, Inc. The note dated June 26, 2001 which bears interest at 5.1%, is due annually each August 15 through 2015. Interest is due semi-annually on February 15 and August 15 of each year. Payments are made from the General Fund, the Vocational Education Fund and the Special Education Fund.	2001	\$ 1,200,000	\$ 224,400	\$ 1,424,400

Building and Equipment Note:

B & B General Contracting, Inc. Subsequently assigned to Comerica Securities, Inc. The note dated April 11, 2002 which bears interest at 5.625%, is due annually each August 15, beginning 2011 through 2014. Interest is due semi-annually on February 15 and August 15 of each year. Payments are made from the General Fund, the Vocational Education Fund and the Special Education Fund.	2002	500,000	143,438	643,438
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IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

B. Notes Payable (Continued)

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
Vehicle Note:				
Daimler-Chrysler Services North America LLC. The note dated August 21, 2006 which bears interest at 5.57%, is payable in annual installments of \$21,562 each September 1 through 2010. Payments are made from the Special Education Fund.				
	2007	\$ <u>39,770</u>	\$ <u>3,353</u>	\$ <u>43,123</u>
Total Notes Payable		\$ <u>1,739,770</u>	\$ <u>371,191</u>	\$ <u>2,110,961</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2008 are as follows:

	<u>Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 240,129	\$ 91,882	\$ 332,011
2010	242,195	79,615	321,810
2011	329,022	110,997	440,019
2012	233,893	55,410	289,303
2013	245,030	42,705	287,735
2014 - 2016	<u>670,000</u>	<u>51,169</u>	<u>721,169</u>
Total	\$ <u>1,960,269</u>	\$ <u>431,778</u>	\$ <u>2,392,047</u>

The annual State of Michigan appropriation, through the State Aid payments, is the only revenue source for making the annual debt service payment on the school improvement bonds. If the legislature fails to appropriate the funds, the Agency is under no obligation for payment.

C. Compensated Absences Payable

The Agency has an employee benefit plan that allows employees to accumulate sick and vacation pay days. The amount of accumulated sick and vacation pay liability for Iosco Regional Educational Service Agency was \$126,000 at June 30, 2008. The payment dates of compensated absences are undeterminable; therefore, all of the liability is considered long term.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Agency for the year ended June 30, 2008:

	Balance <u>July 1, 2007</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30, 2008</u>	Amount Due in <u>One Year</u>
<u>Governmental Activities</u>					
Bonds	\$ 220,499	\$ 0	\$ 0	\$ 220,499	\$ 20,783
Notes Payable	1,958,011	0	(218,241)	1,739,770	219,346
Compensated Absences Payable	<u>95,186</u>	<u>30,814</u> *	<u>0</u>	<u>126,000</u>	<u>0</u>
Total Long-Term Liabilities	\$ <u>2,273,696</u>	\$ <u>30,814</u>	\$ <u>(218,241)</u>	\$ <u>2,086,269</u>	\$ <u>240,129</u>

*Represents net of additions and retirements for the year.

The interest expenditures on long-term obligations for the year were \$101,599.

NOTE 7 - DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
Special Education Fund	
Medicaid Revenue	\$ <u>20,539</u>

NOTE 8 - OPERATING TRANSFERS

During the year ended June 30, 2008, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 0	\$ 70,000
Vocational Education Fund	<u>70,000</u>	<u>0</u>
	\$ <u>70,000</u>	\$ <u>70,000</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 9 - RETIREMENT PLANS

Defined Benefit Plan

The Iosco Regional Educational Service Agency contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2007, employer contributions were 17.74% of covered compensation as agencies were responsible for the entire pension and health insurance contribution. After September 30, 2007, the contribution rate decreased to 16.72% of covered compensation. The contribution requirements of plan members and Iosco Regional Educational Service Agency are established and may be amended by the MPERS Board. The Agency's contributions to MPERS for the years ending June 30, 2008, 2007 and 2006 were \$349,022, \$366,953 and \$317,673, respectively, equal to the required contributions for each year.

The MPERS also provides for death and disability benefits which are established by state statute. Under the MPERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The Agency offers its employees participation in the Tax-Deferred Payments (TDP) program through MPERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Iosco Regional Educational Service Agency. Payments into the program are vested once 10 years of service credit have been earned through the MPERS. Employee contributions to the TDP program totaled \$28,163 for the year ended June 30, 2008.

The Agency also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$41,095 for the year ended June 30, 2008. The assets of the plan are administered and held by various approved third party financial institutions.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 10 - RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Agency participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property, casualty and workers' disability compensation. The pools are considered public entity risk pools. The Agency pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The Agency has not been informed of any special assessments being required.

The Agency continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 11 - GOVERNMENTAL REGULATION

Substantially all of the Agency's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Agency expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the Agency. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 12 - CONTINGENCIES AND COMMITMENTS

The Agency participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2008, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the Agency expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 516,861	\$ 546,278	\$ 576,792	\$ 30,514
State Sources	625,283	533,540	526,379	(7,161)
Federal Sources	18,653	19,057	19,620	563
Total revenue	<u>1,160,797</u>	<u>1,098,875</u>	<u>1,122,791</u>	<u>23,916</u>
<u>Expenditures</u>				
Current:				
Instruction	0	1,216	1,216	0
Support Services	844,818	697,508	624,090	73,418
Community Services	147,864	199,634	162,318	37,316
Outgoing Transfers to Other Districts	14,254	14,254	12,549	1,705
Capital Outlay	61,843	33,532	27,753	5,779
Debt Service:				
Principal Retirement	23,000	35,813	35,812	1
Interest and Fees on Long-Term Debt	10,859	10,929	10,859	70
Total expenditures	<u>1,102,638</u>	<u>992,886</u>	<u>874,597</u>	<u>118,289</u>
Excess of revenue over expenditures	58,159	105,989	248,194	142,205
<u>Other Financing Uses</u>				
Operating Transfers Out	<u>(136,954)</u>	<u>(104,450)</u>	<u>(70,000)</u>	<u>34,450</u>
Excess of revenue over (under) expenditures and other uses	(78,795)	1,539	178,194	176,655
Fund balances - beginning of year	<u>774,877</u>	<u>774,877</u>	<u>774,877</u>	<u>0</u>
Fund balances - end of year	<u>\$ 696,082</u>	<u>\$ 776,416</u>	<u>\$ 953,071</u>	<u>\$ 176,655</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 VOCATIONAL EDUCATION FUND
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 659,335	\$ 578,717	\$ 583,714	\$ 4,997
State Sources	175,764	154,596	151,915	(2,681)
Federal Sources	104,483	105,391	104,965	(426)
Total revenue	<u>939,582</u>	<u>838,704</u>	<u>840,594</u>	<u>1,890</u>
<u>Expenditures</u>				
Current:				
Instruction	620,635	544,301	521,064	23,237
Support Services	208,624	199,130	190,049	9,081
Outgoing Transfers to Other Districts	74,155	57,248	53,598	3,650
Debt Service:				
Principal Retirement	117,600	117,600	104,788	12,812
Interest and Fees on Long-Term Debt	<u>55,522</u>	<u>55,522</u>	<u>55,522</u>	<u>0</u>
Total expenditures	<u>1,076,536</u>	<u>973,801</u>	<u>925,021</u>	<u>48,780</u>
Excess of revenue over (under) expenditures	(136,954)	(135,097)	(84,427)	50,670
<u>Other Financing Sources</u>				
Operating Transfers In	<u>136,954</u>	<u>110,000</u>	<u>70,000</u>	<u>(40,000)</u>
Excess of revenue and other sources over (under) expenditures	0	(25,097)	(14,427)	10,670
Fund balances - beginning of year	<u>28,636</u>	<u>28,636</u>	<u>28,636</u>	<u>0</u>
Fund balances - end of year	<u>\$ 28,636</u>	<u>\$ 3,539</u>	<u>\$ 14,209</u>	<u>\$ 10,670</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL
 SPECIAL EDUCATION FUND
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 1,549,761	\$ 1,431,782	\$ 1,503,035	\$ 71,253
State Sources	639,501	860,206	860,206	0
Federal Sources	<u>1,394,482</u>	<u>1,393,427</u>	<u>1,394,883</u>	<u>1,456</u>
Total revenue	<u>3,583,744</u>	<u>3,685,415</u>	<u>3,758,124</u>	<u>72,709</u>
<u>Expenditures</u>				
Current:				
Instruction	1,739,787	1,712,937	1,608,958	103,979
Support Services	1,393,942	1,520,053	1,474,005	46,048
Community Services	70,929	87,629	85,800	1,829
Outgoing Transfers to Other Districts	228,000	199,974	197,618	2,356
Capital Outlay	43,000	69,001	46,926	22,075
Debt Service:				
Principal Retirement	77,641	77,641	77,641	0
Interest and Fees on Long-Term Debt	<u>30,445</u>	<u>30,445</u>	<u>28,594</u>	<u>1,851</u>
Total expenditures	<u>3,583,744</u>	<u>3,697,680</u>	<u>3,519,542</u>	<u>178,138</u>
Excess of revenue over (under) expenditures	0	(12,265)	238,582	250,847
Fund balances - beginning of year	<u>560,757</u>	<u>560,757</u>	<u>560,757</u>	<u>0</u>
Fund balances - end of year	<u>\$ 560,757</u>	<u>\$ 548,492</u>	<u>\$ 799,339</u>	<u>\$ 250,847</u>

OTHER INFORMATION

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 312,464	\$ 320,719	\$ 304,140
Drivers Education Tuition	147,100	160,103	183,514
Interest on Investments	16,250	17,210	18,697
Contributions	0	91	1,325
Miscellaneous Local Sources	70,464	78,669	57,325
	<u>546,278</u>	<u>576,792</u>	<u>565,001</u>
<u>State Sources</u>			
State Aid Foundation Allowance	448,528	446,920	524,096
Durant II	37,343	37,343	37,343
Math/Science	1,047	1,048	7,473
ORV Safety Training Grant	0	276	0
Motorcycle Safety Grant	46,622	40,792	67,915
Strong Families/Safe Children	0	0	14,440
	<u>533,540</u>	<u>526,379</u>	<u>651,267</u>
<u>Federal Sources</u>			
ECIA Title II- Improving Teacher Quality	199	0	199
Title V	454	0	454
Goals 2000	0	1,216	0
Eisenhower Professional Development Grant	17,160	17,159	18,610
Strong Families/Safe Children	1,244	1,245	3,285
	<u>19,057</u>	<u>19,620</u>	<u>22,548</u>
Total Revenue	<u>\$ 1,098,875</u>	<u>\$ 1,122,791</u>	<u>\$ 1,238,816</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Instruction</u>			
Adult Education			
Basic:			
Supplies, Materials and Other	\$ 1,216	\$ 1,216	\$ 0
Total Instruction	<u>1,216</u>	<u>1,216</u>	<u>0</u>
<u>Support Services</u>			
Pupil Services:			
Attendance Services			
Purchased Services	30,097	26,565	30,786
Supplies, Materials and Other	<u>200</u>	<u>11</u>	<u>0</u>
	<u>30,297</u>	<u>26,576</u>	<u>30,786</u>
Pupil Support Services			
Purchased Services	<u>3,000</u>	<u>2,635</u>	<u>6,922</u>
Total Pupil Services	<u>33,297</u>	<u>29,211</u>	<u>37,708</u>
Instructional Staff:			
Instructional Improvement			
Salaries	42,226	42,226	42,226
Employee Benefits	18,615	18,519	17,508
Purchased Services	35,257	33,034	38,474
Supplies, Materials and Other	<u>7,480</u>	<u>3,519</u>	<u>1,849</u>
	<u>103,578</u>	<u>97,298</u>	<u>100,057</u>
Library Services			
Salaries	<u>2,701</u>	<u>2,700</u>	<u>0</u>
Total Instructional Staff:	<u>106,279</u>	<u>99,998</u>	<u>100,057</u>
General Administration:			
Board of Education			
Salaries	3,600	1,620	2,365
Purchased Services	28,850	13,526	19,221
Supplies, Materials and Other	<u>4,079</u>	<u>3,537</u>	<u>3,729</u>
	<u>36,529</u>	<u>18,683</u>	<u>25,315</u>
Executive Administration			
Salaries	142,697	142,697	142,697
Employee Benefits	35,496	34,674	36,289
Purchased Services	4,750	3,793	3,439
Supplies, Materials and Other	<u>2,700</u>	<u>2,152</u>	<u>2,061</u>
	<u>185,643</u>	<u>183,316</u>	<u>184,486</u>
Total General Administration	<u>222,172</u>	<u>201,999</u>	<u>209,801</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Support Services</u> (Continued)			
School Administration:			
Other Administration			
Salaries	\$ 25,100	\$ 25,041	\$ 42,984
Employee Benefits	18,049	17,253	24,516
Purchased Services	11,245	10,097	10,065
Supplies, Materials and Other	7,956	7,454	6,181
	<u>62,350</u>	<u>59,845</u>	<u>83,746</u>
Central Office			
Employee Benefits	<u>200</u>	<u>183</u>	<u>0</u>
Total School Administration	<u>62,550</u>	<u>60,028</u>	<u>83,746</u>
Business:			
Fiscal Services			
Salaries	16,507	16,507	16,507
Employee Benefits	7,069	6,816	8,278
Supplies, Materials and Other	2,898	2,756	6,683
Other Expenditures	365	211	163
	<u>26,839</u>	<u>26,290</u>	<u>31,631</u>
Operations and Maintenance:			
Purchased Services	21,460	14,155	17,886
Supplies, Materials and Other	1,000	514	9,314
	<u>22,460</u>	<u>14,669</u>	<u>27,200</u>
Transportation:			
Salaries	12,000	11,788	12,851
Employee Benefits	5,838	5,096	12,076
Purchased Services	79,800	60,145	147,394
Supplies, Materials and Other	18,000	9,288	16,589
	<u>115,638</u>	<u>86,317</u>	<u>188,910</u>
Central Services:			
Staff and Personnel Services			
Salaries	55,300	55,029	53,769
Employee Benefits	15,048	14,800	14,540
	<u>70,348</u>	<u>69,829</u>	<u>68,309</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

GENERAL FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Support Services</u> (Continued)			
Central Services (Continued)			
Technology			
Salaries	\$ 11,700	\$ 11,550	\$ 13,191
Employee Benefits	3,125	3,090	3,649
Purchased Services	1,500	1,067	4,984
Supplies, Materials and Other	21,600	20,042	26,887
	<u>37,925</u>	<u>35,749</u>	<u>48,711</u>
 Total Central Services	 <u>108,273</u>	 <u>105,578</u>	 <u>117,020</u>
 Total Support Services	 <u>697,508</u>	 <u>624,090</u>	 <u>796,073</u>
 <u>Community Services</u>			
Other Community Services:			
Salaries	25,750	15,459	9,750
Employee Benefits	8,398	4,048	2,438
Purchased Services	82,410	74,561	70,855
Supplies, Materials and Other	83,076	68,250	67,238
	<u>199,634</u>	<u>162,318</u>	<u>150,281</u>
 <u>Outgoing Transfers to Other Districts</u>			
Title V	<u>14,254</u>	<u>12,549</u>	<u>13,398</u>
 <u>Capital Outlay</u>			
Support Services	26,532	21,131	38,723
Community Services	<u>7,000</u>	<u>6,622</u>	<u>11,420</u>
 Total Capital Outlay	 <u>33,532</u>	 <u>27,753</u>	 <u>50,143</u>
 <u>Debt Service</u>			
Principal Retirement	35,813	35,812	23,329
Interest and Fees on Long-Term Debt	<u>10,929</u>	<u>10,859</u>	<u>12,041</u>
 Total Debt Service	 <u>46,742</u>	 <u>46,671</u>	 <u>35,370</u>
 <u>Operating Transfers Out</u>			
Vocational Education Fund	<u>104,450</u>	<u>70,000</u>	<u>28,318</u>
 Total Expenditures and Transfers	 <u>\$ 1,097,336</u>	 <u>\$ 944,597</u>	 <u>\$ 1,073,583</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

VOCATIONAL EDUCATION FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Local Sources</u>			
Tuition	\$ 567,515	\$ 571,610	\$ 609,368
Contributions	9,379	9,379	3,208
Miscellaneous Local Sources	<u>1,823</u>	<u>2,725</u>	<u>1,426</u>
	<u>578,717</u>	<u>583,714</u>	<u>614,002</u>
<u>State Sources</u>			
Vocational Education	129,596	126,915	146,659
Michigan Rehab Services	<u>25,000</u>	<u>25,000</u>	<u>24,990</u>
	<u>154,596</u>	<u>151,915</u>	<u>171,649</u>
<u>Federal Sources</u>			
Career and Technical Education	<u>105,391</u>	<u>104,965</u>	<u>104,483</u>
<u>Other Financing Sources</u>			
Sale of Capital Assets	0	0	4,000
Operating Transfers In	<u>110,000</u>	<u>70,000</u>	<u>28,318</u>
	<u>110,000</u>	<u>70,000</u>	<u>32,318</u>
Total Revenue and Other Financing Sources	<u>\$ 948,704</u>	<u>\$ 910,594</u>	<u>\$ 922,452</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

VOCATIONAL EDUCATION FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Instruction</u>			
Added Needs:			
Vocational Education			
Salaries	\$ 268,111	\$ 262,949	\$ 283,770
Employee Benefits	152,842	144,041	169,429
Purchased Services	56,472	51,873	49,434
Supplies, Materials and Other	66,876	62,201	28,745
	<u>544,301</u>	<u>521,064</u>	<u>531,378</u>
<u>Support Services</u>			
School Administration:			
Office of the Principal			
Salaries	50,130	50,126	51,529
Employee Benefits	27,958	27,237	27,717
Purchased Services	13,500	11,496	14,236
Supplies, Materials and Other	6,050	5,549	5,871
	<u>97,638</u>	<u>94,408</u>	<u>99,353</u>
Operations and Maintenance:			
Purchased Services	<u>83,195</u>	<u>78,668</u>	<u>79,196</u>
Central Services:			
Technology			
Salaries	11,670	11,550	4,611
Employee Benefits	3,217	2,846	1,210
Purchased Services	1,800	1,067	4,984
Supplies, Materials and Other	1,610	1,510	419
	<u>18,297</u>	<u>16,973</u>	<u>11,224</u>
Total Support Services	<u>199,130</u>	<u>190,049</u>	<u>189,773</u>
<u>Outgoing Transfers to Other Districts</u>			
Vocational Education	<u>57,248</u>	<u>53,598</u>	<u>71,854</u>
<u>Debt Service</u>			
Principal Retirement	117,600	104,788	117,600
Interest and Fees on Long-Term Debt	<u>55,522</u>	<u>55,522</u>	<u>61,520</u>
Total Debt Service	<u>173,122</u>	<u>160,310</u>	<u>179,120</u>
Total Expenditures and Transfers	<u>\$ 973,801</u>	<u>\$ 925,021</u>	<u>\$ 972,125</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF REVENUE COMPARED TO BUDGET
 For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 960,355	\$ 962,145	\$ 912,415
Transportation Fees	53,220	46,722	45,380
Interest on Investments	25,000	25,933	32,686
Contributions	0	63	50
Medicaid Fee for Service	252,000	312,168	303,478
Miscellaneous Local Sources	141,207	156,004	97,604
	<u>1,431,782</u>	<u>1,503,035</u>	<u>1,391,613</u>
<u>State Sources</u>			
Special Education	<u>860,206</u>	<u>860,206</u>	<u>609,287</u>
<u>Federal Sources</u>			
Medicaid Outreach	17,500	20,528	17,482
Special Education	1,373,427	1,372,338	1,387,401
National School Lunch Program	2,500	2,017	2,627
	<u>1,393,427</u>	<u>1,394,883</u>	<u>1,407,510</u>
<u>Other Financing Sources</u>			
Note Proceeds	<u>0</u>	<u>0</u>	<u>58,011</u>
Total Revenue and Other Financing Sources	<u>\$ 3,685,415</u>	<u>\$ 3,758,124</u>	<u>\$ 3,466,421</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Instruction</u>			
Added Needs:			
Trainable Mentally Impaired			
Salaries	\$ 531,580	\$ 529,828	\$ 445,748
Employee Benefits	356,523	340,564	286,145
Purchased Services	33,300	32,018	36,992
Supplies, Materials and Other	20,000	19,422	15,566
	<u>941,403</u>	<u>921,832</u>	<u>784,451</u>
Severely Mentally Impaired			
Salaries	175,000	169,186	193,161
Employee Benefits	119,089	114,190	108,194
Purchased Services	65,820	11,923	39,908
Supplies, Materials and Other	3,500	1,364	2,435
	<u>363,409</u>	<u>296,663</u>	<u>343,698</u>
Preschool Health			
Salaries	55,000	52,515	40,182
Employee Benefits	31,180	27,900	21,565
Supplies, Materials and Other	3,488	2,530	3,224
	<u>89,668</u>	<u>82,945</u>	<u>64,971</u>
Hearing Impaired			
Salaries	124,995	123,645	124,306
Employee Benefits	82,864	80,195	79,388
Purchased Services	1,115	348	503
Supplies, Materials and Other	1,200	516	1,366
	<u>210,174</u>	<u>204,704</u>	<u>205,563</u>
Visually Impaired			
Salaries	2,500	2,229	52,580
Employee Benefits	5,950	3,376	28,091
Purchased Services	6,500	5,687	8,600
Supplies, Materials and Other	1,000	472	727
	<u>15,950</u>	<u>11,764</u>	<u>89,998</u>
Resource Room			
Salaries	47,100	47,021	44,918
Employee Benefits	23,101	22,218	16,890
Purchased Services	100	19	53
Supplies, Materials and Other	22,032	21,792	9,657
	<u>92,333</u>	<u>91,050</u>	<u>71,518</u>
Total Instruction	<u>1,712,937</u>	<u>1,608,958</u>	<u>1,560,199</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
 DETAILS OF EXPENDITURES COMPARED TO BUDGET
 For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Support Services</u>			
Pupil Services:			
Occupational Therapy			
Salaries	\$ 44,600	\$ 44,551	\$ 70,584
Employee Benefits	28,526	27,496	47,301
Purchased Services	24,703	21,431	5,456
Supplies, Materials and Other	3,075	2,822	3,757
	<u>100,904</u>	<u>96,300</u>	<u>127,098</u>
Instructional Staff:			
Director of Special Education			
Salaries	151,132	150,698	92,991
Employee Benefits	57,365	53,743	45,310
Purchased Services	192,035	186,092	211,940
Supplies, Materials and Other	1,300	859	1,090
	<u>401,832</u>	<u>391,392</u>	<u>351,331</u>
School Administration:			
Central Office			
Purchased Services	12,772	12,772	12,912
Supplies, Materials and Other	51,035	47,842	38,456
	<u>63,807</u>	<u>60,614</u>	<u>51,368</u>
Business:			
Fiscal Services			
Salaries	66,030	66,027	66,027
Employee Benefits	23,581	23,215	34,463
Purchased Services	6,650	6,344	2,665
Supplies, Materials and Other	1,250	1,221	609
	<u>97,511</u>	<u>96,807</u>	<u>103,764</u>
Staff Secretary			
Salaries	38,295	38,044	37,939
Employee Benefits	28,406	27,924	28,170
Purchased Services	325	0	260
Supplies, Materials and Other	50	0	39
	<u>67,076</u>	<u>65,968</u>	<u>66,408</u>
Total Business	<u>164,587</u>	<u>162,775</u>	<u>170,172</u>
Operations and Maintenance:			
Purchased Services	47,030	43,045	43,445
Supplies, Materials and Other	2,200	1,361	2,138
	<u>49,230</u>	<u>44,406</u>	<u>45,583</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Support Services (Continued)</u>			
Transportation:			
Salaries	\$ 279,560	\$ 275,272	\$ 318,469
Employee Benefits	194,509	188,071	172,413
Purchased Services	66,517	62,113	79,222
Supplies, Materials and Other	104,500	102,253	70,719
	<u>645,086</u>	<u>627,709</u>	<u>640,823</u>
Central Services:			
ISD Planner/Monitor			
Employee Benefits	0	0	372
Purchased Services	73,600	72,028	44,809
Supplies, Materials and Other	2,587	1,635	2,476
	<u>76,187</u>	<u>73,663</u>	<u>47,657</u>
Technology			
Salaries	11,900	11,900	4,611
Employee Benefits	3,270	2,932	1,210
Purchased Services	1,500	1,067	4,984
Supplies, Materials and Other	1,750	1,247	539
	<u>18,420</u>	<u>17,146</u>	<u>11,344</u>
Total Central Services	<u>94,607</u>	<u>90,809</u>	<u>59,001</u>
Total Support Services	<u>1,520,053</u>	<u>1,474,005</u>	<u>1,445,376</u>
<u>Community Services</u>			
Early Intervention			
Salaries	36,500	36,329	2,356
Employee Benefits	18,135	18,070	1,303
Purchased Services	29,994	28,505	67,397
Supplies, Materials and Other	3,000	2,896	2,101
	<u>87,629</u>	<u>85,800</u>	<u>73,157</u>
<u>Outgoing Transfers to Other Districts</u>			
Medicaid Transfers	<u>199,974</u>	<u>197,618</u>	<u>211,477</u>
<u>Capital Outlay</u>			
Instruction	2,000	180	0
Support Services	<u>67,001</u>	<u>46,746</u>	<u>69,511</u>
Total Capital Outlay	<u>69,001</u>	<u>46,926</u>	<u>69,511</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SPECIAL EDUCATION FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	<u>2008 Amended Budget</u>	<u>2008 Actual</u>	<u>2007 Actual</u>
<u>Debt Service</u>			
Principal Retirement	\$ 77,641	\$ 77,641	\$ 62,613
Interest and Fees on Long-Term Debt	<u>30,445</u>	<u>28,594</u>	<u>33,893</u>
Total Debt Service	<u>108,086</u>	<u>106,235</u>	<u>96,506</u>
Total Expenditures and Transfers	<u>\$ 3,697,680</u>	<u>\$ 3,519,542</u>	<u>\$ 3,456,226</u>



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IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
IOSCO COUNTY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED JUNE 30, 2008

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October 14, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency as of and for the year ended June 30, 2008, which collectively comprise the Iosco Regional Educational Service Agency's basic financial statements and have issued our report thereon dated October 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Iosco Regional Educational Service Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Iosco Regional Educational Service Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iosco Regional Educational Service Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Iosco Regional Educational Service Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Iosco Regional Educational Service Agency's financial statements that is more than inconsequential will not be prevented or detected by Iosco Regional Educational Service Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Iosco Regional Educational Service Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iosco Regional Educational Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Education
Iosco Regional Educational Service Agency
October 14, 2008
Page Two

We noted certain matters that we have reported to management of Iosco Regional Educational Service Agency in a separate letter dated October 14, 2008.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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October 14, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

Compliance

We have audited the compliance of the Iosco Regional Educational Service Agency with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Iosco Regional Educational Service Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Iosco Regional Educational Service Agency's management. Our responsibility is to express an opinion on the Iosco Regional Educational Service Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Iosco Regional Educational Service Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Iosco Regional Educational Service Agency's compliance with those requirements.

In our opinion, Iosco Regional Educational Service Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Iosco Regional Educational Service Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Iosco Regional Educational Service Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Iosco Regional Educational Service Agency's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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Board of Education
Iosco Regional Educational Service Agency
October 14, 2008
Page Two

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iosco Regional Educational Service Agency as of and for the year ended June 30, 2008, and have issued our report thereon dated October 14, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Iosco Regional Educational Service Agency's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gratch & Co., P.C.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2008

Findings - Financial Statements Audit

07-1

Internal Controls

Financial Statement Preparation

Iosco Regional Educational Service Agency's have individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

Current Status:

Based on the current year evaluation of management, it was determined that the preparation of the financial statements is no longer a significant deficiency. We believe that management has adequate procedures in place that would identify any material misstatements to the financial statements.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ending June 30, 2007.

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of Iosco Regional Educational Service Agency.
- (2) No significant deficiencies in internal control relating to the audit of the financial statements were reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of Iosco Regional Educational Service Agency, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No significant deficiencies relating to the audit of internal control over major federal award programs were reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for Iosco Regional Educational Service Agency expresses an unqualified opinion.
- (6) No audit findings relative to the major federal award programs for Iosco Regional Educational Service Agency are reported in this schedule.
- (7) The programs tested as major programs included: Special Education Cluster, CFDA #84.027 and 84.173.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) Iosco Regional Educational Service Agency was determined to be a low-risk auditee.

Findings - Financial Statements Audit

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ending June 30, 2008.

Findings and Questioned Costs – Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ending June 30, 2008.

IOSCO REGIONAL EDUCATION SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor or Pass Through Grantor <u>Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2007</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2008</u>
<u>U.S. Department of Agriculture</u>							
Child Nutrition Cluster:							
Passed through Michigan Department of Education:							
National School Lunch Program:							
Sec. 4 - All Lunches:							
071950	10.555	\$ 296	\$ 263	\$ 0	\$ 33	\$ 33	\$ 0
081950		195	0	0	195	195	0
Sec. 11 - Free and Reduced:							
071960		2,332	2,080	0	252	252	0
081960		1,537	0	0	1,537	1,537	0
Total U.S. Department of Agriculture		<u>4,360</u>	<u>2,343</u>	<u>0</u>	<u>2,017</u>	<u>2,017</u>	<u>0</u>
<u>U.S. Department of Education</u>							
Federal Adult Education 081150 822195	84.002	<u>1,216</u>	<u>0</u>	<u>0</u>	<u>1,216</u>	<u>1,216</u>	<u>0</u>
Special Education Cluster:							
Handicapped and Preschool Programs:							
Passed through Michigan Department of Education:							
Special Education EOSD Competitive 070480 EOSD	84.027	45,000	45,000	5,213	0	5,213	0
Special Education EOSD Competitive 080480 EOSD		45,000	0	0	45,000	45,000	0
Special Education - State Initiated 080490 TS		50,000	0	0	50,000	50,000	0
Special Education Flow Through 080450 0708		1,159,740	0	0	1,159,740	1,090,048	69,692
		<u>1,299,740</u>	<u>45,000</u>	<u>5,213</u>	<u>1,254,740</u>	<u>1,190,261</u>	<u>69,692</u>
Passed through Michigan Department of Education:							
Special Education - Preschool Grants:							
Preschool Incentive 080460 0708	84.173	<u>43,855</u>	<u>0</u>	<u>0</u>	<u>43,855</u>	<u>43,855</u>	<u>0</u>
Total Special Education Cluster		<u>1,343,595</u>	<u>45,000</u>	<u>5,213</u>	<u>1,298,595</u>	<u>1,234,116</u>	<u>69,692</u>

IOSCO REGIONAL EDUCATION SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2007	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2008
<u>U.S. Department of Education</u> (Continued)							
Passed through Clare Gladwin Educational Service District:							
Secondary CTE Perkins (Title I) 6012-06	84.048	\$ 87,979	\$ 87,979	\$ 44,662	\$ 0	\$ 44,662	\$ 0
Secondary CTE Perkins (Title I) 6012-06		<u>87,553</u>	<u>0</u>	<u>0</u>	<u>87,553</u>	<u>87,553</u>	<u>0</u>
Total Perkins Grant		<u>175,532</u>	<u>87,979</u>	<u>44,662</u>	<u>87,553</u>	<u>132,215</u>	<u>0</u>
Passed through Michigan Department of Education:							
Special Education Formula Grant for Infants and Toddlers:							
Early On Michigan 051340 190	84.181A	82,875	78,964	(3,911)	3,911	0	0
Early On Michigan 071340 190		<u>72,728</u>	<u>72,728</u>	<u>67,553</u>	<u>0</u>	<u>67,553</u>	<u>0</u>
Early On Michigan 081340 190		<u>69,832</u>	<u>0</u>	<u>0</u>	<u>69,832</u>	<u>56,149</u>	<u>13,683</u>
		<u>225,435</u>	<u>151,692</u>	<u>63,642</u>	<u>73,743</u>	<u>123,702</u>	<u>13,683</u>
Passed through Crawford Oscoda Ogemaw Roscommon: Intermediate School District:							
Tech Prep Education 073540 7014-6	84.243	16,504	16,504	3,900	0	3,900	0
Tech Prep Education 073540 7014-6		<u>17,412</u>	<u>0</u>	<u>0</u>	<u>17,412</u>	<u>17,412</u>	<u>0</u>
		<u>33,916</u>	<u>16,504</u>	<u>3,900</u>	<u>17,412</u>	<u>21,312</u>	<u>0</u>
Small Rural School Achievement Program S358A073739	84.358A	<u>19,235</u>	<u>0</u>	<u>0</u>	<u>17,159</u>	<u>17,159</u>	<u>0</u>
Total U.S. Department of Education		<u>1,798,929</u>	<u>301,175</u>	<u>117,417</u>	<u>1,495,678</u>	<u>1,529,720</u>	<u>83,375</u>
<u>U.S. Department of Health and Human Services</u>							
Passed through Family Independence Agency:							
Title IVB, Subpart 2 - Family Preservation and Support Services:							
SFSC-03-35003-4	93.556	<u>1,245</u>	<u>0</u>	<u>0</u>	<u>1,245</u>	<u>1,245</u>	<u>0</u>
Passed through Michigan Department of Community Health Med Bill:							
Title XIX Medical Assistance Program:							
Transportation Claims	93.778	1,581	1,581	44	0	44	0
Transportation Claims		<u>6,369</u>	<u>0</u>	<u>0</u>	<u>6,369</u>	<u>6,009</u>	<u>360</u>
		<u>7,950</u>	<u>1,581</u>	<u>44</u>	<u>6,369</u>	<u>6,053</u>	<u>360</u>

IOSCO REGIONAL EDUCATION SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2007	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2008
<u>U.S. Department of Health and Human Services (Continued)</u>							
Passed through Michigan Department of Community Health							
Title XIX Medical Assistance Program:							
Medicaid Outreach Claims	93.778	\$ 14,159	\$ 0	\$ 0	\$ 14,159	\$ 14,159	\$ 0
Total Title XIX Medical Assistance Program		22,109	1,581	44	20,528	20,212	360
Total U.S. Department of Health and Human Services		23,354	1,581	44	21,773	21,457	360
Total Federal Financial Awards		\$ 1,826,643	\$ 305,099	\$ 117,461	\$ 1,519,468	\$ 1,553,194	\$ 83,735

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report, reconcile with this schedule.
4. Reconciliation to financial statements:

General Fund	\$ 19,620
Vocational Education	104,965
Special Education	<u>1,394,883</u>
Federal revenue per financial statements and schedule of expenditures of federal awards	<u>\$ 1,519,468</u>

IOSCO REGIONAL EDUCATIONAL SERVICE AGENCY
Iosco County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 PROVIDED TO SUBRECIPIENTS
For the Year Ended June 30, 2008

<u>Federal Program Title/Subrecipient</u>	<u>Project Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>Due to Subrecipient July 1, 2007</u>	<u>Current Year Transfer to Subrecipient</u>	<u>Current Year Subrecipient Federal Expenditures</u>	<u>Due to Subrecipient June 30, 2008</u>
Special Education Formula Grant for Infants and Toddlers:							
Early On Michigan		84.181A					
AuSable Valley Community Mental Health Services Board, Inc.	081340 190		\$ 27,968	\$ 0	\$ 27,968	\$ 27,968	\$ 0
Title XIX Medical Assistance Program:							
Medicaid Transportation and Outreach Claims:		93.778	N/A				
Hale Area Schools				366	422	91	35
Oscoda Area Schools				141	570	1,055	626
Tawas Area Schools				35	758	990	267
Whittemore-Prescott Area Schools				120	394	548	274
				<u>662</u>	<u>2,144</u>	<u>2,684</u>	<u>1,202</u>
Total Federal Awards Provided to Subrecipients			\$ 27,968	\$ 662	\$ 30,112	\$ 30,652	\$ 1,202



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA

Herman A. Bertuleit

October 14, 2008

Management and the Board of Education
Iosco Regional Educational Service Agency
Iosco County, Michigan

We have conducted the audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Iosco Regional Educational Service Agency as of and for the year ended June 30, 2008 and have issued our report dated October 14, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I. Auditor's Communication of Significant Matters with Those Charged with Governance

II. Management Comments

We discussed these matters with various personnel in the Agency during the audit and met with management on October 14, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the Agency and the Michigan Department of Education (or) Treasury and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Stephenson, Gracik & Co., P.C.

Appendix 1

Communication to Those Charged with Governance

Responsibilities Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated May 20, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered losco Regional Education Service Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether losco Regional Education Service Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about losco Regional Education Service Agency's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on losco Regional Education Service Agency's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on losco Regional Education Service Agency's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated June 30, 2008.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the Agency during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We encountered no difficulties during the audit.

Appendix 1

Communication to Those Charged with Governance

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted audit differences was provided to management on October 14, 2008.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Appendix II Management Comments

In planning and performing our audit of the financial statements of losco Regional Educational Service Agency as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered losco Regional Educational Service Agency's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the losco Regional Educational Service Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the losco Regional Educational Service Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified no deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

We have noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of losco Regional Educational Service Agency's financial statements. However, if at any point in the audit we as auditors are part of losco Regional Educational Service Agency's control system for producing reliable financial statements, auditing standards indicate that the District has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We believe that management is capable of preparing the financial statements portion of the report; however, we recommend that management look into purchasing the 2005 Governmental Accounting, Auditing and Financial Reporting – Using the GASB 34 Model (commonly known as the "Blue Book"), to help train and assist management with the disclosures required for the financial statements. This guide is offered through the Government Finance Officers Association website at www.gfoa.org.

TRANSPORTATION CASH RECEIPTS

During the audit we noted that when transportation cash receipts are received by the various driving test administrators, the cash and receipts are given to the Transportation Supervisor to tally and forward on to the Assistant Superintendent to deposit. No reconciliations are currently done between the scheduling book of tests actually administered and the cash received for those tests administered. We recommend that the Transportation Director reconcile the cash received with the scheduling book of tests administered to ensure completeness of the cash being deposited. At a minimum we would recommend that these reconciliations be performed on a random periodic basis, if not every time.

Appendix II
Management Comments

OVERTIME / ADDITIONAL PAY APPROVAL

It is our understanding that supervisors are to approve all overtime and/or additional compensation for union workers and the Superintendent is to approve all overtime and/or additional compensation for administrative staff. During the audit, we noted that some additional administrator's pay approval was stamped with the Superintendent's signature stamp which is retained by the Payroll Clerk. This stamp does not demonstrate that the Superintendent is actually approving the overtime and/or additional pay. We recommend that the approvals be physically signed by the appropriate individual. This will strengthen the Agency's controls over the payment of additional hours.

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation			X	